CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 25, 1998

H.R. 3654
Selective Agricultural Embargoes Act of 1998

As ordered reported by the House Committee on Agriculture on June 18, 1998

SUMMARY

H.R. 3654 would establish procedures for the Congress to approve or disapprove certain types of agricultural embargoes imposed by the President. It would require the termination of such embargoes within one year if the Congress approves the embargo and sooner if not. These procedures and requirements of H.R. 3654 cover embargoes that affect existing export contracts for agricultural commodities and plant nutrient materials but not all exports to a country. In addition, H.R. 3654 would amend the Arms Export Control Act to exempt certain Department of Agriculture export programs from sanctions imposed by the President.

CBO estimates that the exemption of certain agriculture programs from sanctions would increase outlays from direct spending by $24 million in fiscal year 1999 and $216 million over the 1999-2003 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. H.R. 3654 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

DESCRIPTION OF THE BILL'S MAJOR PROVISIONS

Section 2 would require the President to report to the Congress on covered embargoes. It also would establish procedures by which the Congress could approve or disapprove the embargo. Other than specified exceptions, H.R. 3654 would require that the embargo be terminated within a year if the Congress approved the embargo and within 100 days if the Congress disapproved the embargo. Section 3 would add plant nutrient materials to contract sanctity provisions that are already in effect for agricultural commodities. Section 4 would exempt from sanctions imposed by the President any credit, credit guarantee, or other financial assistance provided by the Department of Agriculture for the purchase or other provision of food or agricultural commodities.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

If new embargoes were imposed, sections 2 and 3 could affect direct spending because programs to guarantee loans would resume earlier than under current law. However, CBO has no basis for estimating the potential budgetary impact of these sections because we cannot predict the likelihood or extent of future embargoes.

Assuming enactment near the beginning of fiscal year 1999, CBO estimates that section 4 would increase spending by $24 million in fiscal year 1999 and larger amounts in subsequent years. The costs of section 4 are attributable to Pakistan's recent testing of nuclear weapons, which triggered sanctions under the Arms Export Control Act. CBO estimates that the imposition of sanctions will prevent previously anticipated sales of agricultural products to Pakistan under the export credit guarantee known as General Sales Manager-102 (GSM). Exempting agricultural export programs from the sanctions would allow those sales to go forward and would increase federal spending by the amount of the credit subsidy for the sales. The estimated effects are shown in the following table. The cost of this legislation fall within budget function 350 (agriculture).

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	35	43	48	50	51
Estimated Outlays	0	24	43	48	50	51

BASIS OF ESTIMATE

CBO's estimate of the effects of section 4 reflects the increase in GSM costs that would result from providing export credit guarantees for sales to Pakistan, partially offset for the first several years by the effect of higher exports of wheat, and the resulting increase in wheat prices, on domestic marketing assistance loans.

In estimating the budgetary effects of legislative proposals, CBO takes into account not only any changes in law since its last baseline projections but also significant discrete events that alter the application of law when failure to do so would result in a clearly erroneous estimate. For instance, when the level of an upcoming statutory cost-of-living adjustment (COLA) for a federal benefit program is announced subsequent to publication of a baseline, CBO uses the announced level in estimating the cost of proposed legislation that would alter the COLA.

This approach was taken in estimates of proposals that would have affected COLAs for veterans compensation in 1991 and for Food Stamps in 1992. Similarly, when a final court decision issued subsequent to completion of the baseline affects estimated spending or revenues, CBO takes the decision into account in estimating the effects of legislation that would overturn the decision. CBO applied this methodology earlier this month in estimating the impact of legislation to overturn a Supreme Court decision that limits eligibility for membership in credit unions. In the case of section 4 of H.R. 3654, its enactment would clearly increase spending compared to current law because of the imposition of sanctions on Pakistan on May 30.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	24	43	48	50	51	51	51	51	51	51
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3654 contains no intergovernmental or private-sector mandates as defined in the UMRA and would not affect the budgets of state, local, or tribal governments.

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